MUNICIPAL ENERGY SERVICES AGENCY

FINANCIAL STATEMENTS
Including Independent Auditors' Report

Years Ended December 31, 2017 and 2016

CLARK SCHAEFER HACKETT
CPAS & ADVISORS

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CLARK SCHAEFER HACKETT
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INDEPENDENT AUDITORS' REPORT

To the Board of Participants
Municipal Energy Services Agency:

Report on the Financial Statements

We have audited the accompanying financial statements of Municipal Energy Services Agency ("MESA"), which comprise the statements of net position as of December 31, 2017 and 2016, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Municipal Energy Services Agency as of December 31, 2017 and 2016, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules of proportionate share of net pension liability and pension contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 18, 2018 on our consideration of MESA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MESA's internal control over financial reporting and compliance.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
April 18, 2018

MUNICIPAL ENERGY SERVICES AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2017, 2016 and 2015
(Unaudited)

Financial Statement Overview

This discussion and analysis provides an overview of the financial performance of Municipal Energy Services Agency ("MESA") for the years ended December 31, 2017 and 2016. The information presented should be read in conjunction with the basic financial statements and the accompanying notes.

MESA prepares its basic financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. MESA's basic financial statements include the statements of net position; the statements of revenues, expenses and changes in net position; and the statements of cash flows.

The statements of net position provide information about the nature and amount of assets and liabilities of MESA as of the end of the year. The statements of revenues, expenses and changes in net position report revenues and expenses for the year. The statements of cash flows reports cash receipts, cash payments, and net changes in cash resulting from operating and investing activities.

Financial Highlights

The following table summarizes the financial position of MESA as of December 31:

Condensed Statement of Net Position

	2017	2016	2015
Assets			
Cash and short term investments	$ 1,065,695	$ 3,713,237	$ 1,282,315
Recievables from AMP members	926,261	458,230	374,778
Recievables from related parties	1,047,007	2,311,696	5,395,334
Costs/recoveries in excess of member project billings	765,918	289,947	243,048
Prepaid expenses	3,427	2,083	2,125
Total Current Assets	$ 3,808,308	$ 6,775,193	$ 7,297,600
Deferred Outflows of Resources			
Pension	$ 6,305,713	$ 5,022,656	$ 1,496,200
Total assets and deferred outflows	$ 10,114,021	$ 11,797,849	$ 8,793,800
Liabilities			
Current liabilities	$ 2,154,798	$ 5,251,901	$ 5,651,270
Noncurrent liabilities			
Net pension liability	15,659,775	12,969,890	9,925,281
Other long-term amounts	1,653,510	1,523,292	1,646,330
Total liabilities	$ 19,468,083	$ 19,745,083	$ 17,222,881
Deferred Inflows of Resources			
Pension	973,574	912,452	187,890
Net Position:			
Unrestricted	$ (10,327,636)	$ (8,859,686)	$ (8,616,971)
Total net position, liabilities and deferred inflows	$ 10,114,021	$ 11,797,849	$ 8,793,800

During 2015, MESA adopted GASB Statement 68, "Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement 27," which significantly revises accounting for pension costs and liabilities. For reasons discussed below, many end users of this financial statement will gain a clearer understanding of MESA's actual financial condition by adding deferred inflows related to pension and the net pension liability to the reported net position and subtracting deferred outflows related to pension.

Governmental Accounting Standards Board standards are national and apply to all government financial reports prepared in accordance with generally accepted accounting principles. When accounting for pension costs, GASB 27 focused on a funding approach. This approach limited pension costs to contributions annually required by law, which may or may not be sufficient to fully fund each plan's net pension liability. GASB 68 takes an earnings approach to pension accounting; however, the nature of Ohio's statewide pension systems and state law governing those systems requires additional explanation in order to properly understand the information presented in these statements.

Under the new standards required by GASB 68, the net pension liability equals MESA's proportionate share of each plan's collective:

1. Present value of estimated future pension benefits attributable to active and inactive employees' past service

2 Minus plan assets available to pay these benefits

GASB notes that pension obligations, whether funded or unfunded, are part of the "employment exchange" – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange. However, MESA is not responsible for certain key factors affecting the balance of this liability. In Ohio, the employee shares the obligation of funding pension benefits with the employer. Both employer and employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The employee enters the employment exchange with the knowledge that the employer's promise is limited not by contract but by law. The employer enters the exchange also knowing that there is a specific, legal limit to its contribution to the pension system. In Ohio, there is no legal means to enforce the unfunded liability of the pension system as against the public employer. State law operates to mitigate/lessen the moral obligation of the public employer to the employee, because all parties enter the employment exchange with notice as to the law. The pension system is responsible for the administration of the plan.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability. As explained above, changes in pension benefits, contribution rates, and return on investments affect the balance of the net pension liability, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required pension payments, State statute does not assign/identify the responsible party for the unfunded portion. Due to the unique nature of how the net pension liability is satisfied, this liability is separately identified within the long-term liability section of the statement of net position.

In accordance with GASB 68, MESA's statements prepared on an accrual basis of accounting include an annual pension expense for their proportionate share of each plan's change in net pension liability not accounted for as deferred inflows/outflows.

As a result of implementing GASB 68, MESA is reporting a net pension liability and deferred inflows/outflows of resources related to pension on the accrual basis of accounting.

2017 vs. 2016

Total assets were $3,808,308 and $6,775,193 as of December 31, 2017 and December 31, 2016, respectively, a decrease of $2,966,885. This was due to decreases in cash of $2,647,542 and in net receivables of $796,658 offset by an increase in costs and recoveries in excess of billings from projects constructed by members of $475,971.

Deferred outflows of resources were $6,305,713 in 2017 as compared to $5,022,656 in 2016, an increase of $1,283,057. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until then. The change in 2017 to 2016 balance represents contributions subsequent to measurement date and the change in expected investment returns as compared to actual.

Total liabilities were $19,468,083 and $19,745,083 as of December 31, 2017 and December 31, 2016, respectively, a decrease of $277,000. This increase was due mainly to an increase in the change in net pension liability of $2,689,885 offset by a decrease in payables to related parties of $3,086,630.

> Current liabilities were $2,154,798 and $5,251,901 as of December 31, 2017 and December 31, 2016, respectively, a decrease of $3,097,103. This was primarily due to a decrease in payables to related parties of $3,086,630.
>
> Other long-term liabilities were $1,653,510 and $1,523,292 as of December 31, 2017 and December 31, 2016, respectively, an increase of $130,218. Non-current liabilities are comprised of accrued sick leave. The increase is due to benefits paid, offset by benefits earned.
>
> Net pension liability was $15,659,775 as compared to $12,969,890, as of December 31, 2017 and December 31, 2016, respectively. This change represents an increase of $2,689,885 due to changes in net pension liability at the plan level.

Deferred inflows of resources were $973,574 and $912,452 as of December 31, 2017 and December 31, 2016, respectively. The change in 2017 to 2016 balance represents the change between expected and actual experience for the pension plan.

2016 vs. 2015

Total assets were $6,775,193 and $7,297,600 as of December 31, 2016 and December 31, 2015, respectively, a decrease of $522,407. This was due to an increase in cash of $2,430,922 offset by a decrease in net receivables of $3,000,186.

Deferred outflows of resources were $5,022,656 in 2016 as compared to $1,496,200 in 2015, an increase of $3,526,456. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until then. The change in 2016 to 2015 balance represents contributions subsequent to measurement date and the change in expected investment returns as compared to actual.

Total liabilities were $19,745,083 and $17,222,881 as of December 31, 2016 and December 31, 2015, respectively, an increase of $2,522,202. This increase was due mainly to an increase in the change in net pension liability.

> Current liabilities were $5,251,901 and $5,651,270 as of December 31, 2016 and December 31, 2015, respectively, a decrease of $399,369. This was due to an increase in payables to related parties of $740,320 offset by decreases in accounts payable and accrued employee related expenses.
>
> Other long-term liabilities were $1,523,292 and $1,646,330 as of December 31, 2016 and December 31, 2015, respectively, a decrease of $123,038. Non-current liabilities are comprised of accrued sick leave. The decrease is due to change in employee headcount and benefits paid, offset by benefits earned.
>
> Net pension liability was $12,969,890 as compared to $9,925,281, as of December 31, 2016 and December 31, 2015, respectively. This change represents an increase of $3,044,609 due to changes in net pension liability at the plan level.

Deferred inflows of resources were $912,452 and $187,890 as of December 31, 2016 and December 31, 2015, respectively. The change in 2016 to 2015 balance represents the change between expected and actual experience for the pension plan.

The following table summarizes the changes in revenues, expenses and changes in net position of MESA for the years ended December 31:

Condensed Statement of Revenues, Expenses and Changes in Net Position

	2017	2016	2015
Operating revenues	$ 16,183,610	$ 16,680,756	$ 17,123,891
Operating expenses	17,654,969	16,923,471	17,274,003
Operating Loss	(1,471,359)	(242,715)	(150,112)
Nonoperating revenue			
Investment income	3,409	-	252
Change in Net Position	$ (1,467,950)	$ (242,715)	$ (149,860)

Operating revenues in 2017 were $16,183,610 versus $16,680,756 in 2016 which was a decrease of $497,146. MESA has primarily two sources of revenues; projects for members and providing personnel services to related parties. Revenue from projects on behalf of members increased by $414,324 due to increased activity experienced during the year. Revenue from providing personnel services to related parties decreased by $911,470, due mainly to a decrease in MESA headcount from prior year.

Operating expenses in 2017 were $17,654,969 versus $16,923,471 in 2016 which was an increase of $731,498. This decrease was primarily due to the decrease in MESA headcount from fiscal year 2016 offset by increases in pension expense and in direct project expenses.

Investment income for MESA is limited to interest earned in the checking account for the operating funds held at the bank. Investment income in 2017 was $3,409 versus $0 in 2016 which was an increase of $3,409.

If you have questions about this report, or need additional financial information, contact management at 614.540.1111 or 1111 Schrock Road – Suite 100, Columbus, OH 43229.

MUNICIPAL ENERGY SERVICES AGENCY

STATEMENTS OF NET POSITION
December 31, 2017 and 2016

	2017	2016
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS		
Cash and short term investments	$ 1,065,695	$ 3,713,237
Receivables from AMP members	926,261	458,230
Receivables from related parties	1,047,007	2,311,696
Costs and recoveries in excess of billings from projects constructed on behalf of members	765,918	289,947
Prepaid expenses	3,427	2,083
Total Current Assets	3,808,308	6,775,193
DEFERRED OUTFLOW OF RESOURCES		
Pension	6,305,713	5,022,656
TOTAL DEFERRED OUTFLOW OF RESOURCES	6,305,713	5,022,656
TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES	$ 10,114,021	$ 11,797,849
LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$ 79,126	$ 173,659
Payable to related parties	-	3,086,630
Accrued salaries and related benefits	1,067,794	890,100
Accrued vacation leave	1,007,878	1,101,512
Total Current Liabilities	2,154,798	5,251,901
NON CURRENT LIABILITIES		
Accrued sick leave	1,653,510	1,523,292
Net pension liability	15,659,775	12,969,890
Total Non current Liabilities	17,313,285	14,493,182
Total Liabilities	19,468,083	19,745,083
DEFERRED INFLOW OF RESOURCES		
Pension	973,574	912,452
TOTAL DEFERRED INFLOW OF RESOURCES	973,574	912,452
NET POSITION		
Unrestricted	(10,327,636)	(8,859,686)
Total Net Position	(10,327,636)	(8,859,686)
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION	$ 10,114,021	$ 11,797,849

MUNICIPAL ENERGY SERVICES AGENCY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended December 31, 2017 and 2016

	2017	2016
OPERATING REVENUES		
Services	$ 14,849,632	$ 15,761,102
Project revenue	1,333,978	919,654
Total Operating Revenues	16,183,610	16,680,756
OPERATING EXPENSES		
Salaries and related benefits	15,358,470	15,735,066
Professional fees	86,296	169,416
Direct project expenses	2,107,381	809,949
Insurance	41,117	28,362
Other operating expenses	61,705	180,678
Total Operating Expenses	17,654,969	16,923,471
Operating Loss	(1,471,359)	(242,715)
NONOPERATING REVENUES		
Investment income	3,409	-
Total Non-Operating Revenues	3,409	-
Change in net position	(1,467,950)	(242,715)
NET POSITION, Beginning of Year	(8,859,686)	(8,616,971)
NET POSITION, END OF YEAR	$ (10,327,636)	$ (8,859,686)

See accompanying notes to financial statements.

MUNICIPAL ENERGY SERVICES AGENCY

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2017 and 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from AMP members for services	$ 865,947	$ 836,202
Cash received from related parties for services	15,638,350	18,797,841
Cash payments to employees for services	(15,238,725)	(16,257,473)
Cash payments to suppliers and related parties for good and services	(3,916,523)	(945,648)
Net Cash Provided by Operating Activities	(2,650,951)	2,430,922
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income received	3,409	-
Net Cash Provided by Investing Activities	3,409	-
Net Change in Cash and Cash Equivalents	(2,647,542)	2,430,922
CASH AND CASH EQUIVALENTS, Beginning of Year	3,713,237	1,282,315
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,065,695	$ 3,713,237

See accompanying notes to financial statements.

MUNICIPAL ENERGY SERVICES AGENCY

STATEMENTS OF CASH FLOWS
Years Ended December 31, 2017 and 2016

	2017	2016
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating loss	$ (1,471,359)	$ (242,715)
Changes in assets and liabilities		
Receivables from AMP	(468,031)	(83,452)
Receivables from related parties	1,264,689	3,083,638
Cost and estimated earnings in excess of billings from projects constructed onbehalf of members	(475,971)	(46,899)
Prepaid expenses	(1,344)	42
Deferred inflows and outflows, net	(1,221,935)	(2,801,894)
Accounts payable and accrued expenses	(94,533)	(112,515)
Accounts payable to related parties	(3,086,630)	740,320
Accrued salaries and related benefits	177,694	(737,410)
Accrued vacation and sick leave	36,584	(412,802)
Net pension liability	2,689,885	3,044,609
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ (2,650,951)	$ 2,430,922

See accompanying notes to financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Municipal Energy Services Agency ("MESA") was organized by 31 subdivisions of the State of Ohio (the "Participants") on December 31, 1996, pursuant to a Joint Venture Agreement (the "Agreement") under the Ohio Constitution and Section 715.02 of the Ohio Revised Code. As of December 31, 2017, there were 54 Participants in MESA. Its purpose is to provide access to a pool of personnel experienced in planning, engineering, construction, safety training, finance, administration and other aspects of the operation and maintenance of municipal electric and other utility systems. The participants are members of American Municipal Power, Inc. ("AMP"). MESA also provides personnel and administrative services to AMP, the Ohio Municipal Electric Generation Agency Joint Ventures: 1, 2, 4, 5, and 6 ("OMEGA JVs") and the Ohio Municipal Electric Association ("OMEA"). The Agreement continues until December 31, 2008, and thereafter for successive terms of three years so long as at least two participants have not given notice of termination of participation. At December 31, 2017, no notice of termination has been received.

The following summarizes the significant accounting policies followed by MESA.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

ASSETS, LIABILITIES AND NET POSITION

Deposits and Investments

For purposes of the statements of cash flows, cash and cash equivalents have original maturities of three months or less from the date of acquisition, except that restricted cash accounts, if any, are treated as investments in the statement of cash flows.

MESA has elected to comply with Ohio Revised Code (ORC) section 135.14. Under ORC 135.14, investments are limited to:

1. Deposits at eligible institutions pursuant to ORC section 135.08, 135.09 and 135.18.
2. Bonds or other obligations of the state.
3. Bonds or securities issued or guaranteed by the federal government and its agencies.
4. Bankers acceptances, with certain conditions.
5. The local government investment pool.
6. Commercial paper, with certain conditions.
7. All investments must have an original maturity of 5 years or less.
8. Repurchase agreements with public depositories, with certain conditions.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

MESA has adopted an investment policy. That policy follows the state statute for allowable investments and specifies the maximum concentration of investments in each eligible security.

Investments are stated at fair value, which is the amount at which an investment could be exchanged in a current transaction between willing parties. Fair values are based on quoted market prices. No investments are reported at amortized cost. Adjustments necessary to record investments at fair value are recorded in the operating statement as increases or decreases in investment income. Market values may have changed significantly after year end.

Receivables/Payables

Accounts receivable are amounts due from participants, related parties, and other members of AMP at the end of the year. Due to the participant relationship and the high degree of collectibility, no allowance for uncollectible accounts is necessary. Accounts payable are amounts due to vendors for services incurred.

Prepaid Expenses

Prepaid expenses represent costs of insurance paid during the current calendar year for coverage in subsequent years.

Accrued Vacation and Sick Leave

MESA records a liability for compensated absences (sick and vacation) attributable to services rendered. Vacation leave for which employees can receive compensation in a future period is recorded as earned by the employees. Sick leave is recorded for those employees who currently are eligible to receive termination payments as well as other employees who are expected to become eligible in the future to receive such payments.

PENSIONS

For purposes of measuring net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the pension plan and additions to/deductions from its fiduciary net position have been determined on the same basis as they are reported by the pension system. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension systems report investments at fair value.

Deferred Outflows and Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until then. For MESA, deferred outflows of resources are reported for pension, explained further in Note 5.

In additional to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

that applies to a future period and will not be recognized as an inflow until that time. For MESA, deferred inflows of resources are reported for pension, explained further in Note 5.

SERVICE REVENUE AND EXPENSES

Revenues are recognized as services are performed. Service revenue is charged to AMP, the OMEGA JVs, and OMEA at a rate to recover the cost of salaries incurred related to work performed for each entity plus an overhead rate ranging from 0% to 100%. To the extent that the overhead amount charged is different from actual overhead charges incurred, MESA adjusts the amount charged to AMP. AMP absorbs any undercharges and uses any excess charges to offset other administrative expenses incurred, which benefits all members of AMP.

PROJECT REVENUE AND EXPENSES

MESA performs short-term and long-term construction and technical service projects for the members of AMP. Short-term service project revenues are recognized when costs are incurred. Long-term project revenues are recognized in accordance with the American Institute of Certified Public Accountants Statement of Position 81-1 (“SOP 81-1”), *Accounting for Performance of Construction-Type and Certain Production-Type Contracts* for time and materials contracts. In accordance with SOP 81-1, revenue from time and material contracts is recognized to the extent of billable rates times hours delivered plus materials and expenses incurred. Materials and expenses are typically billed at cost. General and administrative costs are charged to expense as incurred. Provisions for estimated losses on uncompleted projects are made in the period in which such losses are identified. Changes in project performance, project conditions and estimated profitability are recognized in the period in which the revisions become known.

Costs and recoveries in excess of billings from projects constructed on behalf of members represent unbilled services and reimbursable materials and expenses associated with ongoing projects. Billings in excess of costs and recoveries for projects constructed on behalf of members represent advanced billings for services to be performed at a future date for ongoing projects. Direct project expenses include an allocation of operating expenses.

MESA distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with MESA’s principal ongoing operations. Operating expenses for MESA include the cost of sales and services, and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NOTE 2 – CASH AND TEMPORARY INVESTMENTS

For purposes of the statements of cash flows, cash and cash equivalents consist of unrestricted cash and highly liquid short-term investments with original maturities of three months or less. Restricted cash accounts, if any, are treated as investments in the statements of cash flows, since they are not available for use.

The following table reflects cash and temporary investments carrying value as of December 31:

	2017	2016	Risks
Checking / Money Market Funds	$ 1,065,695	$ 3,713,237	Custodial credit
Total Cash and Cash Equivalents	$ 1,065,695	$ 3,713,237	

Deposits in each local and area bank are insured by the FDIC in the amount of $250,000 for interest and noninterest bearing accounts as of December 31, 2017 and 2016.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, MESA's deposits may not be returned to it. MESA has custodial credit risk on its cash and temporary investments balance to the extent the balance exceeds the federally insured limit. However, MESA's investment policy requires that amounts in excess of FDIC limits be collateralized by government securities. As of December 31, 2017 and 2016 there were no deposits exposed to custodial credit risk.

Credit Risk

Credit risk is the risk an issuer or other counterparty to an investment will not fulfill its obligations.
MESA invests in instruments approved under the entity's investment policy. The Board of Participants has authorized MESA to invest in funds in accordance with the Ohio Revised Code. Allowable investments include United States Treasury and federal and state government agency obligations, money market funds, and commercial paper with the highest classification by at least two nationally recognized standard rating services.

Interest Rate Risk

Interest rate risk is the risk changes in interest rates will adversely affect the fair value of an investment. MESA's investment policy limits the maturity of commercial paper and bankers acceptances to 180 days.

NOTE 3 – HEALTH INSURANCE

MESA is self-insured for health, dental and prescription drug benefits. The programs are administered by a third-party, which provides claims review and processing services. MESA records a liability for incurred but unreported claims at year end upon an actuarial estimate based on past experience and current claims outstanding.

Changes in funds' claim liability amount in 2017 and 2016 were:

Year	Balance at Beginning of Year	Current Year Claims and Change in Estimate	Claims Payments	Balance at End of Year
2017	$ 246,294	$ 944,630	$ 936,223	$ 254,701
2016	$ 239,228	$ 2,114,719	$ 2,107,653	$ 246,294

NOTE 4 – LONG TERM LIABILITY

Long-term liability activity for the years ended December 31, 2017 and 2016 is as follows:

2017

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Accrued sick leave	$ 1,523,292	$ 230,718	$ (100,500)	$ 1,653,510	$ -
Net pension liability	12,969,890	2,689,885	-	15,659,775	-
	$ 14,493,182	$ 2,920,603	$ (100,500)	$ 17,313,285	$ -

2016

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Accrued sick leave	$ 1,646,330	$ 114,386	$ (237,424)	$ 1,523,292	$ -
Net pension liability	9,925,281	3,044,609	-	12,969,890	-
	$ 11,571,611	$ 3,158,995	$ (237,424)	$ 14,493,182	$ -

NOTE 5 – POSTEMPLOYMENT BENEFITS

NET PENSION LIABILITY

The net pension liability reported on the statement of net position represents a liability to employees for pensions. Pensions are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

The net pension liability represents MESA's proportionate share of each pension plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension plan's fiduciary net position. The net pension liability calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting this estimate annually.

Ohio Revised Code limits MESA's obligation for this liability to annually required payments. MESA cannot control benefit terms or the manner in which pensions are financed; however, MESA does receive the benefit of employees' services in exchange for compensation including pension.

GASB Statement No. 68 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires all funding to come from these employers. All contributions to date have come solely from these employers (which also includes costs paid in the form of withholdings from employees). State statute requires the pension plans to amortize unfunded liabilities within 30 years. If the amortization period exceeds 30 years, each pension plan's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension liability. Resulting adjustments to net pension liability would be effective when the changes are legally enforceable.

The proportionate share of each plan's unfunded benefits is presented as a long-term *net pension liability* on the accrual basis of accounting. Any liability for the contractually-required pension contribution outstanding at the end of the year is included in accrued salaries and related benefits.

PLAN DESCRIPTION

MESA employees participate in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan and the Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. While members (e.g., MESA employees) may elect the Member-Directed Plan and the Combined Plan, the majority of employee members are in OPERS' Traditional Plan; therefore, the following disclosures focus on the Traditional Pension Plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the Traditional Plan. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code (ORC).

NOTE 5 – POSTEMPLOYMENT BENEFITS (cont.)

OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting https://www.opers.org/financial/reports.shtml, by writing to Ohio Public Employees Retirement System, 277 East Town Street, Columbus, OH 43215-4642, or by calling 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the Traditional Pension Plan as per the reduced benefits adopted by SB 343 (see OPERS' CAFR referenced above for additional information):

Group A Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	**Group B** 20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	**Group C** Members not in other Groups and members hired on or after January 7, 2013
State and Local	**State and Local**	**State and Local**
Age and Service Requirements: Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	**Age and Service Requirements:** Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	**Age and Service Requirements:** Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
Formula: 2.2% of FAS multiplied by years of Service for the first 30 years and 2.5% for service years in excess of 30	**Formula:** 2.2% of FAS multiplied by year of service for the first 30 years and 2.5% for service years in excess of 30	**Formula:** 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35

Final average salary (FAS) represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a benefit recipient has received benefits for 12 months, an annual cost of living adjustment (COLA) is provided. This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. For those retiring prior to January 7, 2013, the COLA will continue to be a 3% simple annual COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3%.

NOTE 5 – POSTEMPLOYMENT BENEFITS (cont.)

FUNDING POLICY

Funding Policy—The ORC provides statutory authority for member and employer contributions. For 2017, member contribution rates were 10% of salary and employer contribution rates were 14%.

The portion of employer contributions allocated to health care for members in the Traditional Pension Plan was 1.0% during calendar year 2017. Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. MESA's contractually required contribution was $1,233,496 for 2017.

PENSION LIABILITIES, PENSION EXPENSE, DEFERRED OUTFLOWS OF RESOURCES, AND DEFERRED INFLOWS OF RESOURCES RELATED TO OPERS

The net pension liability for OPERS was measured as of December 31, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. MESA's proportion of the net pension liability was based on the MESA's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share:

		OPERS
Proportionate Share of Net Pension Liability	$	15,659,775
Proportion of Net Pension Liability		0.068960580%
Change in Proportion		-0.005917865%
Pension Expense	$	1,467,950

NOTE 5 – POSTEMPLOYMENT BENEFITS (cont.)

At December 31, 2017, MESA reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

2017	Deferred Outflows of Resources	Deferred (Inflows) of Resources	Net Deferred Outflows/ (Inflows) of Resources
Differences between expected and actual experience	$ 21,225	$ (93,199)	$ (71,974)
Net difference between projected and actual earnings on pension plan investments	2,332,103	-	2,332,103
Change in assumptions	2,483,833	-	2,483,833
Change in Entity's proportionate share and difference in employer contributions	-	(880,375)	(880,375)
Contributions subsequent to the measurement date	1,468,552	-	1,468,552
	$ 6,305,713	$ (973,574)	$ 5,332,139

2016	Deferred Outflows of Resources	Deferred (Inflows) of Resources	Net Deferred Outflows/ (Inflows) of Resources
Differences between expected and actual experience	$ -	$ (280,639)	$ (280,639)
Net difference between projected and actual earnings on pension plan investments	3,867,810	-	3,867,810
Change in Entity's proportionate share and difference in employer contributions	-	(631,813)	(631,813)
Contributions subsequent to the measurement date	1,154,846	-	1,154,846
	$ 5,022,656	$ (912,452)	$ 4,110,204

$1,468,552 reported as deferred outflows of resources related to pension resulting from MESA contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2018.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ending December 31:	OPERS
2018	$ 1,404,556
2019	1,720,353
2020	807,038
2021	(68,360)
2022	-
Thereafter	-
	$ 3,863,587

NOTE 5 – POSTEMPLOYMENT BENEFITS (cont.)

ACTUARIAL ASSUMPTIONS

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation.

The total pension liability in the December 31, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Wage inflation	3.25%
Future salary increases, including inflation	3.25% to 10.75%, including wage inflation
COLA or Ad Hoc COLA	Pre 1/7/2013 Retirees: 3%; Post 1/7/2013 Retirees: 3% simple through 2018, then 2.15% simple
Investment rate of return	7.50%
Actuarial cost method	Individual entry age

See notes to required supplementary information on change of assumptions that impacted the December 31, 2016 actuarial valuation.

Mortality rates are based on the RP-2014 Healthy Annuitant mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and

disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

The most recent experience study was completed for the five-year period ended December 31, 2015.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

During 2016, OPERS managed investments in four investment portfolios: the Defined Benefit portfolio, the 401(h) Health Care Trust portfolio, the 115 Health Care Trust portfolio and the Defined

NOTE 5 – POSTEMPLOYMENT BENEFITS (cont.)

Contribution portfolio. The 401(h) Health Care Trust portfolio was closed as of June 30, 2016. The Defined Benefit portfolio contains the investment assets of the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. The Defined Benefit portfolio historically included the assets of the Member-Directed retiree medical accounts funded through the VEBA Trust. However, the VEBA Trust was closed as of June 30, 2016 and the net position transferred to the 115 Health Care Trust portfolio on July 1, 2016. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio is 8.3% for 2016.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2016 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	23.00%	2.75%
Domestic Equities	20.70%	6.34%
Real Estate	10.00%	4.75%
Private Equity	10.00%	8.97%
International Equities	18.30%	7.95%
Other Investments	18.00%	4.92%
Total	100.00%	5.66%

Discount Rate. The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of MESA's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following table represents MESA's proportionate share of the net pension liability calculated using the current period discount rate assumption of 7.50%,

NOTE 5 – POSTEMPLOYMENT BENEFITS (cont.)

as well as what the MESA's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one-percentage point lower (6.50%) and one-percentage point higher (8.50%) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate of 7.50%	1% Increase (8.50%)
MESA's proportionate share of the net pension liability	$ 23,923,804	$ 15,659,775	$ 8,773,165

OTHER POSTEMPLOYMENT BENEFITS

OPERS also maintains two cost-sharing, multiple-employer defined benefit post-employment health care trusts, which fund multiple health care plans including medical coverage, prescription drug coverage, deposits to a Health Reimbursement Arrangement and Medicare Part B premium reimbursements, to qualifying benefit recipients of both the Traditional Pension and the Combined plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including OPERS-sponsored health care coverage.

In order to qualify for health care coverage, age-and-service retirees under the Traditional Pension and Combined plans must have 20 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement No. 45. Please see the Plan Statement in the OPERS 2015 CAFR for details.

The Ohio Revised Code permits, but does not require, OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board in Chapter 145 of the Ohio Revised Code.

The Ohio Revised Code provides the statutory authority requiring public employers to fund health care through their contributions to OPERS. A portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans.

OPERS maintains three health care trusts. The two cost-sharing, multiple-employer trusts, the 401(h) Health Care Trust and the 115 Health Care Trust, work together to provide health care funding to eligible retirees of the Traditional Pension and Combined plans. The third trust is a Voluntary Employee's Beneficiary Association (VEBA) that provides funding for a Retiree Medical Account for Member-Directed Plan members. Each year, the OPERS Board of Trustees determines the portion of the employer contribution rate that will be set aside to fund health care plans. The portion of employer contributions allocated to health care for members in the Traditional Pension Plan and Combined Plan was 2.0% during calendar year 2016. As recommended by OPERS' actuary, the portion of employer contributions allocated to health care beginning January 1, 2017 decreased to 1.0% for both plans. The Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a

NOTE 5 – POSTEMPLOYMENT BENEFITS (cont.)

portion of the heath care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited to the VEBA for participants in the Member-Directed Plan for 2017 was 4.0%.

The portion of employer contributions that were used to fund health care for 2017, 2016, and 2015 were $235,056, $235,104, and $182,939, respectively.

NOTE 6 – RISK MANAGEMENT

MESA is covered under the insurance policies of AMP and is billed for its proportionate share of the insurance expense. AMP maintains insurance policies related to commercial property, motor vehicle liability, workers' compensation, health care excess liability, general liability, directors' and officers' insurance, fiduciary liability, and crime and fidelity coverage. In addition, MESA maintains an errors and omissions policy related to engineering services it performs. No claims have been filed in the past three years. There were no significant reductions in coverage compared to the prior year.

NOTE 7 – RELATED PARTY TRANSACTIONS

Pursuant to the Agreement, AMP was designated as an agent and provides MESA various management and operational services. As MESA's agent, AMP enters into agreements with related entities to have MESA provide services. Revenues earned from these agreements for the years ended December 31 are as follows:

	2017	2016
AMP	$ 13,915,174	$ 12,831,392
Ohio Municipal Electric Generation Agency Joint Venture 1	28,870	39,586
Ohio Municipal Electric Generation Agency Joint Venture 2	751,194	950,974
Ohio Municipal Electric Generation Agency Joint Venture 4	8,255	20,179
Ohio Municipal Electric Generation Agency Joint Venture 5	1,139,481	2,085,852
Ohio Municipal Electric Generation Agency Joint Venture 6	12,862	69,164
Ohio Municipal Electric Association	141,789	233,511
AMP Members	185,985	450,098
Totals	$ 16,183,610	$ 16,680,756

At December 31, 2017 and 2016, MESA had receivables from affiliates of $1,047,007 and $2,311,696, respectively. At December 31, 2017 and 2016, MESA had a receivable from members of AMP of $926,261 and $458,230, respectively. At December 31, 2017 and 2016, MESA had a payable to AMP for $0 and $3,086,630, respectively.

MUNICIPAL ENERGY SERVICES AGENCY
Required Supplementary Information
Schedule of MESA's Proportionate Share of the Net Pension Liability
Ohio Public Employees Retirement System - Traditional Pension Plan
Last Four Years (1) (2)

	2017	2016	2015	2014
MESA's Proportion of the Net Pension Liability	0.068961%	0.074879%	0.082551%	0.082551%
MESA's Proportionate Share of the Net Pension Liability	$ 15,659,775	$ 12,969,890	$ 9,925,281	$ 9,730,641
MESA's Covered Payroll	$ 9,623,717	$ 8,015,192	$ 10,529,417	$ 9,365,862
MESA's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	162.72%	161.82%	94.26%	103.89%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.25%	81.08%	86.45%	86.36%

(1) Information prior to 2014 is not available. MESA will continue to present information for years available until a full ten-year trend is compiled.

(2) Amounts presented for each year were determined as of MESA's measurement date, which is the prior year-end.

Notes to Schedule:

Change in assumptions. In 2017, changes in assumptions were made based upon an updated experience study that was completed for the five-year period ended December 31, 2015. Significant changes included a reduction of the discount rate from 8.0% to 7.5%, a reduction in the wage inflation rate from 3.75% to 3.25%, and transition from the RP-2000 mortality tables to the RP-2014 mortality tables.

MUNICIPAL ENERGY SERVICES AGENCY
Required Supplementary Information
Schedule of MESA Contributions
Ohio Public Employees Retirement System - Traditional Pension Plan
Last Five Years

	2017	2016	2015	2014	2013
Contractually Required Contributions	$ 1,233,496	$ 1,154,846	$ 961,823	$ 1,263,530	$ 1,217,562
Contributions in Relation to the Contractually Required Contributions	$ (1,233,496)	$ (1,154,846)	$ (961,823)	$ (1,263,530)	$ (1,217,562)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -
MESA Covered Payroll	$ 9,488,431	$ 9,623,717	$ 8,015,192	$ 10,529,417	$ 9,365,862
Contributions as a Percentage of Covered Payroll	13.00%	12.00%	12.00%	12.00%	13.00%

(1) Information prior to 2013 is not available. MESA will continue to present information for years available until a full ten-year trend is compiled.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

INDEPENDENT AUDITORS' REPORT

To the Board of Participants
Municipal Energy Services Agency:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Municipal Energy Services Agency ("MESA"), which comprise the statement of net position as of December 31, 2017 and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 18, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered MESA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MESA's internal control. Accordingly, we do not express an opinion on the effectiveness of MESA's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the MESA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
April 18, 2018